Overview of Federal Tax Relief for Businesses

The American Recovery and Reinvestment Act enacted new tax relief measures that will benefit many Vermont businesses, especially small businesses. These are only some of the changes:

Estimated Tax Payment Requirements – REDUCED: For 2009, ARRA reduces the estimated tax payment requirements for many small-business owners. Owners generally will qualify for the reduced payments if their adjusted gross income (AGI) for 2008 was less than $500,000 and if more than 50% of their 2008 gross income is generated from a "small business," which is defined as a business that, on average, had fewer than 500 employees during 2008.

Cancellation of Debt Income – DEFERRED: Taxpayers generally must recognize cancellation-of-debt income (CODI) when they cancel — or repurchase — debt for an amount less than its adjusted issue price. In certain situations, ARRA allows businesses to defer CODI generated from repurchasing business debt after Dec. 31, 2008, and before Jan. 1, 2011, until calendar year 2014 and then report the income in equal parts over the 2014 through 2018 tax years.

Carry backs for Net Operating Losses – EXTENDED: Generally, a net operating loss (NOL) may be carried back two years to generate a current tax refund, providing cash infusion in times of loss. For 2008 (not 2009), ARRA extends the maximum NOL carry back to five years for small businesses with gross receipts of $15 million or less.

Tax Credits for "Work Opportunity" Hires – EXPANDED: Employers can claim a credit equal to 40% of the first $6,000 of wages paid to employees in certain target groups, such as ex-felons, food stamp recipients and disabled veterans. ARRA expands the eligible target groups to include unemployed veterans and disconnected youth. This benefit applies to such workers hired in 2009 and 2010.

Accelerated Depreciation – INCREASED and EXTENDED: Businesses may depreciate 50% of capital expenditures in 2009. In addition, to spur additional investment, small businesses may expense 100% of capital expenditures up to $250,000 (from $125,000 indexed for inflation). The expensing election begins to phase out dollar for dollar when total asset acquisitions for the tax year exceed $800,000 (up from $500,000 indexed for inflation). The new higher limit applies for calendar year 2009 or a business's fiscal year that begins in 2009.

Accelerated Depreciation for Special Property – EXPANDED: Another depreciation-related provision extends the special allowance for certain property, generally if acquired in 2009. For eligible property, the special depreciation amount is equal to 50% of its adjusted basis. For passenger automobiles that are eligible property under the 50% bonus depreciation rules, the $8,000 increase for the first-year limit on depreciation also is extended to new vehicles placed in service in 2009.

AMT and R&D Credit Option in Lieu of Accelerated Depreciation – EXTENDED: Last year, corporate taxpayers were allowed to accelerate recognition of their historic alternative minimum tax (AMT) and research and development (R&D) credits in lieu of taking the 50% bonus depreciation. That break has now been extended through 2009.

SMALL BUSINESS STOCK: The exclusion of the gain from the sale of qualified small business stock held at least five years is increased from 50% to 75%.

The descriptions on this page are merely summaries and should not be relied upon in calculating current tax liabilities or in estimating the future tax ramifications of possible courses of action. In every case, you should consult the text of the American Recovery and Reinvestment Act itself and, where necessary or advisable, consult a tax professional.